HOUSING MARKET OUTLOOK
St. Catharines-Niagara CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- Housing starts will edge lower
- Existing home prices will grow
- Mortgage rates are expected to inch up

Figure 1

Source: CMHC

The forecasts included in this document are based on information available as of October 16, 2013.

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New Home Market: Will Remain Healthy for 2014

Total starts are expr ed to rise in 2013 powered by a lack of listings in the resale market and affordable mortgage carrying cost. Row and semi-detached will remain popular as purchasers will favour affordable ground oriented units. Starts for this year will be higher than in 2012 due to higher starts in semi-detached and row homes. In 2014, construction will edge lower for all types of homes except for apartments. The first half of 2014 will be stronger than the second half due to higher mortgage rates in the second half.

The new home price index will rise from 2012, but it will edge lower in 2014. The changes in new home prices will follow the existing home market price changes during the same period.

Inventories of completed and unabsorbed new homes, which are edging lower, will rise again next year as home sales slow. This rise in inventories will relieve some of the upward pressure on new home prices.

Existing Home Market: Affordability Declines, But Prices Will Rise

Year to date sales in 2013 remain below last year at the same time, but have been increasing in the last three quarters and is expected to continue in the final quarter. Sales will be essentially flat next year due to softer job markets and slightly higher mortgage rates. For 2013, the mortgage rates will remain below last year's, but they are expected to rise in 2014. The rise in rates may cause potential homebuyers to initially rush into the housing markets to take advantage of mortgage rates locked into pre-approval contracts.

Figure 2

Source: CREA (MLS®), MLS® is a registered trademark of the Canadian Real Estate Association (CREA). Forecast: CMHC.

The average existing home market price for the St. Catharines-Niagara CMA will move up. In 2014, the price increase will be smaller, which will be attributable to a softer balanced market.

In 2014, only the St. Catharines and Welland districts will see growth in sales, yet all districts are expected to see growth in the average price of existing homes. The tourism and manufacturing sectors in these districts will benefit from the expected lower value of the Canadian dollar against the U.S. dollar that will generate an increase in the Canadian economy.

Rental Market: Vacancy Rates Will Decline

Vacancy rates are declining and will continue this trend into next year. In terms of the rental supply, rental apartment starts in 2013 will edge lower before rising in 2014. Interestingly in 2013, the majority of rental starts came from row construction. Usually rental apartment construction makes up the majority of rental starts so we should expect the tendency for apartment construction to exceed row starts to hold for next year. As a consequence, the trends in the rental market supply may exert some upward pressure on the vacancy rates and a downward pressure on rents.

The rent for two bedroom apartments will increase over the next few years, but in 2014 the rent is expected to grow at a slower pace. The slower growth is attributable to lower allowable rent increase that the Ontario government will implement in 2014. The growth in rent will come as a consequence of a higher mortgage carry cost discouraging some home purchasers and growing demand from full-time employment for 15-24 year-olds. These changes in demand in the rental market are expected to exert an upward pressure on rents and a downward pressure on vacancy rates, which will offset the increases in the rental market supply. Since the rental market will remain stable for next year, the rent increase will follow inflation.

Economic Trends: Employment Will Increase

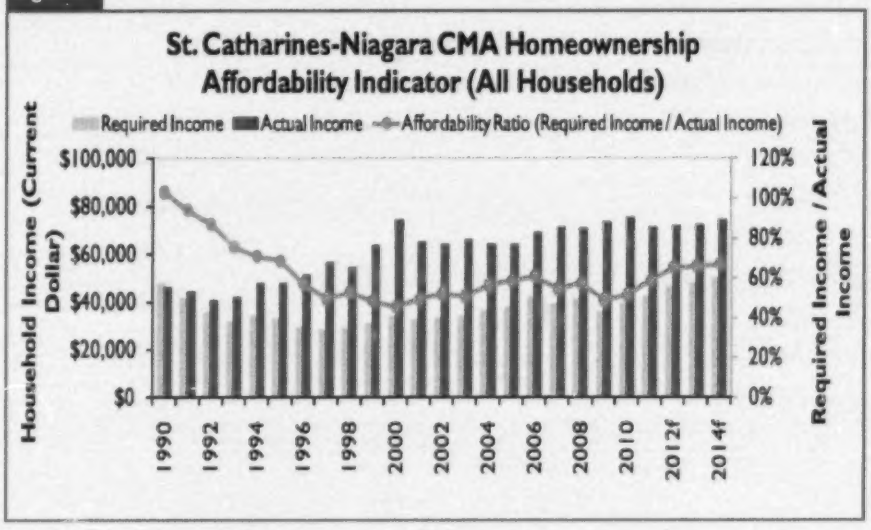
One and five year mortgage rates remain near historical lows as a result of the Bank of Canada's accommodative monetary policy stance. Mortgage rates increases in 2014 will not be large and will continue to support housing demand.

Full-time employment will decline this year. As a consequence, the housing market will experience a moderation in home sales.

Average incomes are expected to grow this year and next year. When the growth rate in income is adjusted for inflation, changes will be minimal causing negligible affects on housing demand for the rest of this year.

The value of the Canadian dollar against the U.S. dollar is expected to remain relatively low. Given St. Catharines-Niagara CMA proximity to the Canada-U.S. border, the CMA's tourism and manufacturing sector will benefit from the resulting increase in Canadian business activity.

Figure 3



Source: CMHC, Statistics Canada, and CREA

Mortgage Rate Outlook

- Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards.
- Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates[1].
- CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.
- Mortgage rates are expected to increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

Mortgage rates		
1 Year	Q3 2013	3.14
	Change from Q3 2012	0.04
	2013 (F)	3.00 - 3.50
	2014 (F)	3.25 - 3.75
5 Year	Q3 2013	5.27
	Change from Q3 2012	0.03
	2013 (F)	5.00 - 5.50
	2014 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2013 data

[1] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting." Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rate	Although housing demand will be supported by a continuation of mortgage rates that will remain near historical lows, mortgage rates are expected to rise in 2014.
Employment	The increase in employment for 2014 will support housing demand across all types.
Income	Average weekly earnings will increase in this and next year while inflation will also increase. The net effect will be a negligible decline in real earnings for this year, and an increase for 2014.
Net Migration	An influx of migrants will support housing demand.
Natural Population Increase	The upward trend in birth rates will contribute to demand for family sized homes.
Resale Market	A tight resale market will loosen a bit next year.
Vacancy Rate	A rising demand for rental will nudge vacancy rates lower.

Forecasts Risks

The outlook is subject to some risks, including:

- A stronger than expected U.S. economic recovery could positively impact St. Catharines-Niagara economic growth, contributing to higher level of activity in the region's housing market.
- Elevated levels of household debt and house prices in the St. Catharines-Niagara CMA may make the region's economy more vulnerable to some economic shocks. For example, if interest rates or unemployment rise sharply, some of the more heavily indebted households could be forced to liquidate some of their assets, including their homes. This could put downward pressure on house price and, more generally, on housing market activity.

Forecast Summary St. Catharines-Niagara CMA Fall 2013	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	714	655	678	665	-1.9	635	-4.5
Multiples	372	455	459	550	19.8	505	-8.2
Semi-Detached	60	34	60	100	66.7	84	-16.0
Row/Townhouse	271	247	215	337	56.7	273	-19.0
Apartments	41	174	184	113	-38.6	148	31.0
Starts - Total	1,086	1,110	1,137	1,215	6.9	1,140	-6.2
Average Price ($):							
Single-Detached	378,640	387,693	435,429	452,260	3.9	476,390	5.3
Median Price ($):							
Single-Detached	339,900	349,900	387,990	406,000	4.6	431,000	6.2
New Housing Price Index (% chg.)	0.8	-0.5	2.0	3.0	-	2.1	-
Resale Market							
MLS® Sales	6,024	5,798	5,554	5,475	-1.4	5,540	1.2
MLS® New Listings	12,346	11,561	10,023	9,807	-2.2	10,463	6.7
MLS® Average Price ($)	217,938	223,065	232,050	235,800	1.6	239,000	1.4
Rental Market							
October Vacancy Rate (%)	4.4	3.2	4.0	3.6	-0.4	3.2	-0.4
Two-bedroom Average Rent (October) ($)	817	833	862	880	-	895	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	192,500	197,200	202,600	197,432	-2.6	200,576	1.6
Employment Growth (%)	2.4	2.4	2.7	-2.6	-	1.6	-
Unemployment rate (%)	9.4	8.2	7.8	7.9	-	7.3	-
Net Migration	1,601	1,284	1,307	1,397	6.9	1,329	-4.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over; MLS® data includes the St.Catharines, Niagara, and Welland boards

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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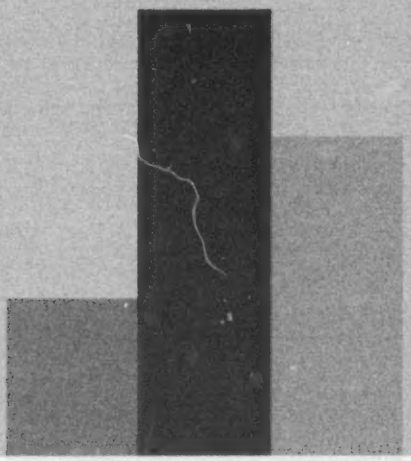

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